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SUBJECT: A Political and Economic Miscellany: For Guangdong
Political Experiments, Beijing Taking the Lead; Economics in Command

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¶1. (SBU) Summary: If one ever had to be reminded of the primacy of economics in Guangdong, Provincial Governor Huang Huahua's response to a question from the Consul General should seal the deal: Beijing, Huang averred, is taking the lead in directing political reforms in the province's cities and Guangdong officials will take their direction from the center.

-- On another note, reports of disagreement between Premier Wen Jiabao and Guangdong Party Secretary Wang Yang on the province's economic strategy were characterized by a senior Guangdong economic official as an unfortunate misinterpretation of the two leaders' shared vision; in fact, this official said that the double transfer policy was first thought up by Huang Huahua (though we have no indications that he ever mentioned it before Wang Yang's arrival).

-- While Guangdong clearly remains focused on trying to come up with an economic game plan for the future, getting through the short term is preoccupying everyone's time, with issue of what kind of assistance, if any, to provide small and medium-sized enterprises in the Pearl River Delta currently the top research priority at the Guangzhou Academy of Social Science.

-- The same senior economic official dismissed China's high savings rate as a contributing factor to the global financial crisis, while a prominent Guangzhou academic separately assessed that the recovery of China's export sector depends on the U.S. economy and that China's government should focus on increasing rural consumption.
End summary.

Governor says Beijing in Charge of New Political Experiment

¶2. (SBU) Beijing is "giving direction" to political reform experiments in five Guangdong cities, Guangdong Governor Huang Huahua said in response to a question asked by the Consul General at a January 13 session the provincial leader had with Consuls General.

Huang, who was visibly reluctant to discuss the project, stated flatly and with a brief touch of asperity that Beijing -- and not Guangdong -- was in charge of implementing programs announced in November 2008 to streamline government structure, emphasize the rule of law and promote official transparency in Shenzhen, Zhuhai, Shantou, Guangzhou and Zhanjiang. Comment: for those who hold out hope that Shenzhen and other places in the south are going to be the centers of "gaige kaifang" (reform and opening) in the political sphere, we would caution that economics has -- and will continue -- to trump anything remotely resembling greater popular participation in local decision making.

Are Wen Jiabao and Wang Yang Really on the Same Page?

13. (SBU) In a separate meeting, Guangdong Province Department of Foreign Trade and Economic Cooperation (DOFTEC) Deputy Director General Cao Xiangnong claimed that Wen Jiabao's three recent visits to Guangdong were an effort to show that Provincial Party Secretary Wang Yang enjoyed close support from the central government. According to Cao, reports that Wen and Wang were at odds over what level of assistance, if any, should be provided SMEs misread the situation: both Wen and Wang share the same vision of a future Pearl River Delta, with the two differing only in how to achieve that vision in the short and medium term. (Comment: Cao's comments on Wen-Wang harmony struck us as somewhat disingenuous, considering that Wang probably did not appreciate the multiple high-level visits that have occurred in recent months, each of which publicly called into question his ability to manage the province. End comment.)

14. (SBU) In a refrain of "where you stand on an issue depends on where you sit," Cao said that the decisions Wang Yang takes as provincial party secretary to address the current economic difficulties may be quite different from those he would make if he were viewing the issue from a position in Beijing. In following a philosophy of "Guangdong for the Cantonese" Wang's responsibility was to put the well-being of the province first, said Cao. When pressed by the Consul General that Wang's career aspirations clearly extended beyond provincial borders and that three high-level visits in six months could be considered not reassuring, but in fact critical, of Wang's stewardship, Cao claimed that leaders in Beijing

GUANGZHOU 00000030 002 OF 002

understood that Wang's Guangdong-centric policies would sometimes conflict with the central government's priorities. It was an admission somewhat at variance with what he had earlier argued.

SME Issue now Top Priority at Academy of Social Science

15. (SBU) City leadership has directed the Guangzhou Academy of Social Science (GZASS) to find a solution to the financial difficulties of small and medium enterprises (SMEs), according to GZASS Party Secretary Li Jiangtao. Li told the Consul General at a separate meeting that Wang Yang is determined to continue with the "double transfer" policy, which aims to move labor-intensive firms and their migrant labor workforces out of the Pearl River Delta (PRD) and into less-developed regions of Guangdong Province. Though a top priority, Li said the SME problem was basically a short-term obstacle. Pointing out that Guangdong now has China's largest income gap between developed and less-developed regions, Li said the "double transfer" policy would proceed and address those inequities while creating an environment for the next stage of the PRD's development.

Looking to America to Fix the Export Economy

16. (SBU) China's dependence on foreign trade -- especially on exports to the United States -- means that America's economic health bears directly on China's chances for recovery, according to GZASS's Li. Li said that many export-oriented products were ill suited for China's domestic market and that the savings rate of average Chinese remained high because of continued worries about future pension, medical care and education needs. In Li's view, Chinese government stimulus priorities should focus on enhancing domestic consumption -- especially in rural areas -- suggesting that, "The recovery of China's economy does not necessarily mean the recovery of its exports." Li also spent considerable time urging Beijing to adopt a more expansive educational policy, seeing the inculcation of new ideas and more creative approaches that only come with critical thinking as the best guarantee of China's future.

17. (SBU) Separately, DOFTEC's Cao rejected Treasury Secretary Paulson's recent comments that global trade imbalances played a role in precipitating the current economic situation. Laying the blame squarely on the United States, Cao dismissed the suggestion that

China's high savings rate was a cause of the global financial crisis.

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